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Approved For Release 2005/08/22 : CIA-RDP85T00875R001900020143-8

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NIO # 1358-74

Approved For Release 2005/08/22 : CIA-RDP85T00875R001900020143-8

Office of the Director
of Central Intelligence

NIO

National
Intelligence
Officers

DATE: 21 June 1974


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TO: 

SUBJECT: CIA Support for the
Moscow Summit

The attached package has been
forwarded to Mr. Sonnenfeldt,
Mr. Hyland, Mr. Clift, and Mr. Hartman.

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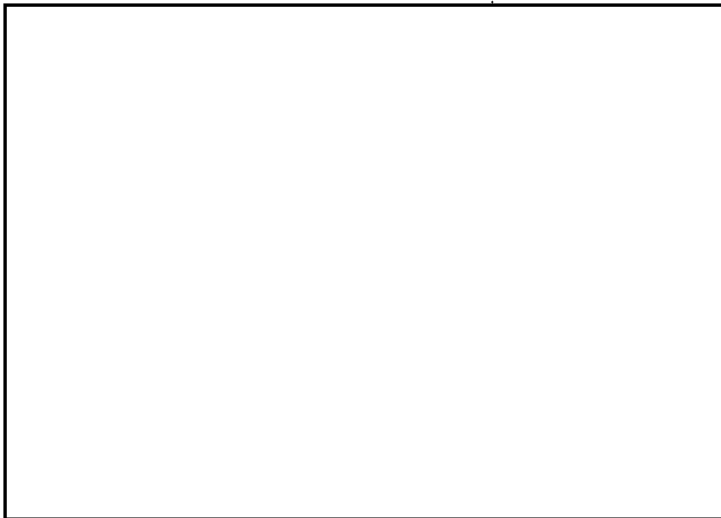
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CIA PAPERS IN SUPPORT OF
THE MOSCOW SUMMIT

JUNE 1974

1. The Outlook for Soviet Trade with the West

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5. Current Soviet View of Europe
6. The Soviet Leadership
7. Western Involvement in Soviet Industry:
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THE OUTLOOK FOR SOVIET TRADE WITH THE WEST

The USSR is expected to earn unprecedented surpluses of hard currency in its foreign trade in 1974-75, following more than a decade of deficits. Rising prices for Soviet exports of oil, minerals, and other raw materials -- combined with a sharp fall in grain purchases after last fall's record harvest -- accounted for the turnaround. Because of these hard currency surpluses, the Soviet leaders will be in a strong position in international economic negotiations in the next year or so.

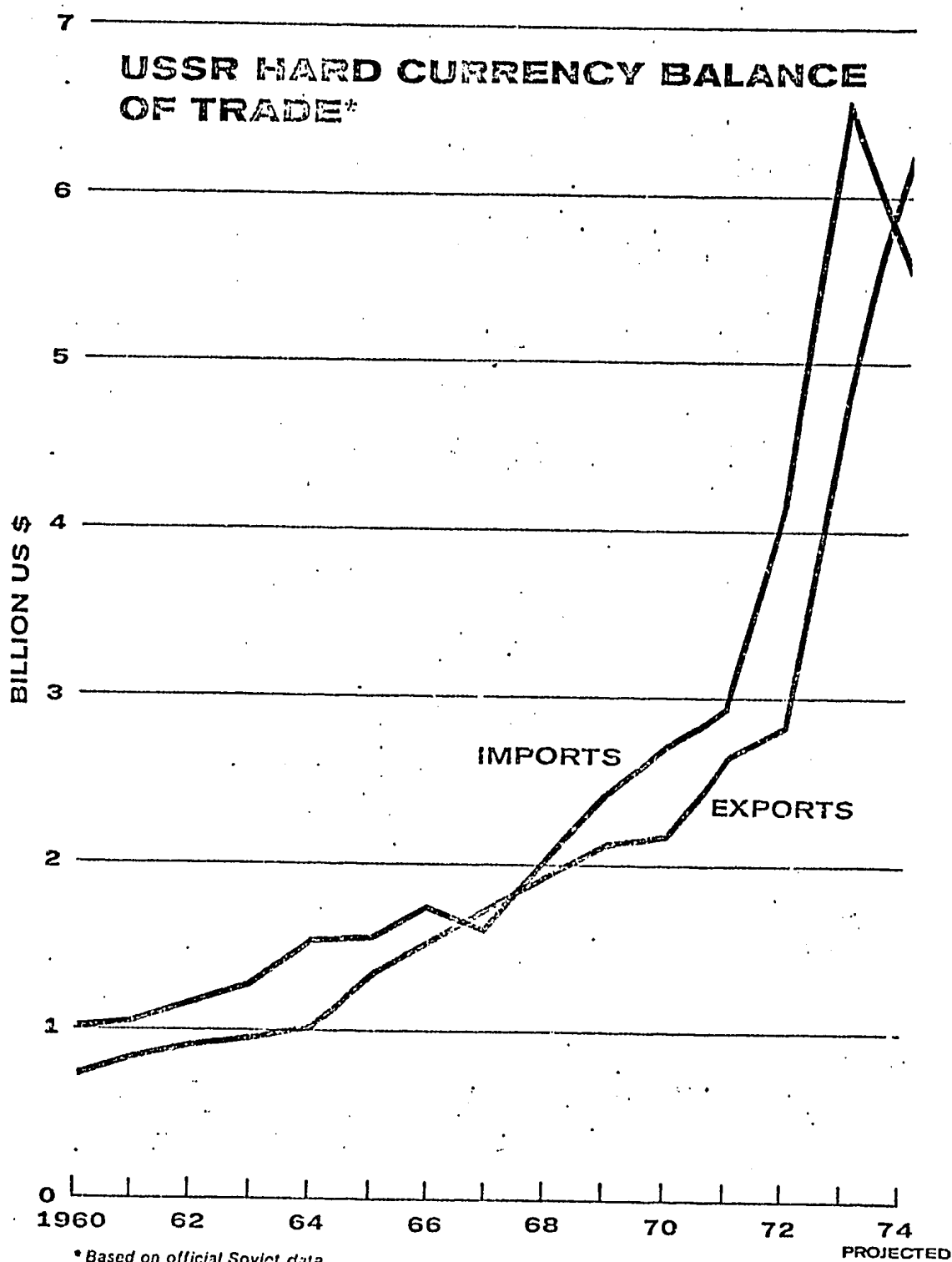
Despite the USSR's improved cash position, a large immediate upsurge in imports is unlikely because of the difficulties in adjusting plans and because of the long lead-times involved in carrying out large investment projects. But the trade turnaround does mean that the USSR

- will be able to pay cash for more of its current purchases;
- will therefore be in a better position to bargain hard on interest rates, credit length, and non-credit terms; and,
- can tell its planners to count more heavily on Western equipment in drawing up the 1976-80 investment plan.

* * *

The USSR capped more than a decade of hard currency deficits by incurring record deficits in 1972 and 1973 -- \$1.4 billion and \$1.7 billion respectively (Table 1). Unprecedented outlays for grain and other farm products were responsible for a sharp increase in net imports.

The 1973 hard currency deficit would have been even larger had not the value of Soviet exports also risen dramatically. Exports increased from \$2.8 billion to \$4.8 billion, thanks largely to substantial increases in the world market prices for those raw materials -- oil, wood products, diamonds, chemicals -- which account for the bulk of Soviet exports to the West.



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Soviet earnings from oil sales alone rose by 125% to \$1.25 billion, while the quantity of oil and oil products sold rose by only seven percent.

The Soviets financed these deficits with:

- medium- and long-term credits backed by Western governments in support of Soviet equipment purchases
- CCC credits to help finance purchases of US grain
- Eurocurrency loans, especially in 1972
- gold sales, especially in 1973, when higher prices boosted Soviet gold earnings to about \$1 billion.

Turnaround in 1974

The 1974 balance of payments picture is far more promising for Moscow. Soviet export earnings should continue to rise rapidly as the USSR sells more oil in the West at a higher average price. Oil sales could earn the Soviets \$2-\$3 billion in 1974 -- about as much as annual hard currency exports in 1969-72. The Soviets probably will also export, at higher prices, greater quantities of natural gas and other raw materials. Total export earnings in 1974 are expected to exceed \$6 billion. In marked contrast, total Soviet imports from the West should decline in 1974. Outlays for farm products will fall sharply, perhaps 50 percent or more if the USSR harvests a normal grain crop. Although imports of machinery and equipment will rise above the 1973 total of \$1.7 billion, the increase will not offset the pronounced decline in agricultural imports.

Meanwhile, drawings on long-term credits for equipment deliveries will continue to exceed payments on existing debt in 1974. As a result, the USSR could achieve a hard currency payments surplus of \$1 billion in 1974 (Table 2). The Soviets could in addition sell \$1 billion in gold just out of current production. The USSR can look forward to a sizable balance of trade surplus in 1975 and possibly 1976 as well. As in 1974, utilization of Western credits, and perhaps gold sales, will add to the hard currency available to pay for imports from the West.

TABLE 2

Soviet Hard Currency Balance of Payments 1972-1974

	Million US \$		
	<u>1972</u>	<u>1973</u>	<u>1974^{a/}</u>
<u>Current Account</u>			
Merchandise Trade			
Exports	+2,815	+4,817	+6,200
Imports	-4,171	-6,566	-5,600
Balance	-1,356	-1,749	+600
Invisibles (net)	-64	-127	-94
<u>Current Account Balance</u>	<u>-1,420</u>	<u>-1,876</u>	<u>+506</u>
<u>Capital Account</u>			
New Credit Drawings	+1,030	+1,690	+1,410
Repayment of Past Drawings	-451	-657	-858
Compensation Repayments	-12	-12	-12
<u>Capital Account Balance</u>	<u>+567</u>	<u>+1,021</u>	<u>+540</u>
<u>Gold Sales</u>	<u>+300</u>	<u>+950</u>	n.a.
<u>Change in Foreign Exchange Holdings</u>	<u>-553</u>	<u>+95</u>	<u>+1,046</u>

^{a/} Preliminary estimates.

The USSR wants to buy more Western machinery -- Soviet contracts for Western equipment have been increasing at an impressive rate: from \$800 million in 1971 to \$1.7 billion in 1972 and to \$2.6 billion in 1973. (Orders are likely to be even higher this year.) The United States is competing successfully in this market, having captured 18 percent of the equipment orders in 1972-73.

Nevertheless, in the next year or two, purchases from the West are not likely to rise as fast as hard currency earnings. The USSR would find it difficult to adjust quickly to a much higher level of orders. To do so would require changes in national plans and would strain the country's ability to absorb Western equipment effectively. Moreover, some of the largest potential machinery orders depend upon the successful negotiation of proposed joint ventures, many of which are still far from agreement.

This strong hard currency position will improve the USSR's economic bargaining power.

- Moscow can now afford to pay cash. It recently agreed to buy roughly \$800 million worth of equipment for the Kursk steel complex in this fashion and has hinted that it might make similar offers to US companies.
- In turn, this enables the USSR to resist high interest rates and other poor credit terms, and to bargain hard on other commercial terms.
- The Soviets can also consider postponing exports of some commodities, e.g., diamonds, for which demand is growing steadily.
- They will have to decide whether to halt gold sales out of current production in the hope that prices will remain high.

Possible Payments Problems in the Last 1970s

Soviet export earnings are expected to level off during the late 1970s. Oil exports should drop in response to growing internal Soviet needs and a decline in the growth of domestic production. In the long term the USSR's balance of payments

position will depend to a considerable extent on how the Soviets use anticipated cash surpluses in the mid-1970s. If the USSR continues to increase significantly its purchase on credit, by 1980 Soviet debt service could become prohibitive and force a cutback in imports from the West.

On the other hand, to the extent the USSR uses its hard currency earnings to pay for current imports, the future Soviet debt burden will be lighter, enabling the USSR to continue to import at a high rate. In addition, any accumulation of hard currency balances in the mid-1970s could be used to sustain imports from the West when the growth in export earnings stops. At any rate, the USSR's new liquidity should encourage Soviet planners to count more heavily on Western machinery in framing the capital construction programs in the 1976-1980 Plan.

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THE CURRENT OUTLOOK FOR THE SOVIET ECONOMY

In 1973 the Soviet Economy recovered strongly from the dismal performance of 1972, and the momentum has carried through into the current year. Among last year's achievements were:

- a real economic growth rate of about 7 1/2 percent;
- record harvests of grain and several other crops;
- recovery of industrial growth from the slowdown of 1972;
- marked increases in the availability of consumer goods, especially food.

The spurt in GNP reflects largely the comeback of farm output, from a drop of 7 percent in 1972 to an increase of 15 percent in 1973. Exceptionally good weather and greater supplies of chemical fertilizers were mainly responsible. The record grain harvest, following on massive imports, permitted a substantial replenishment of depleted stocks.

Machinery production grew by 10 percent to lead the advance in industry. Growth in energy production slowed somewhat as the depletion of older oil and gas regions intensified, but the USSR escaped the energy crunch experienced by other developed countries.

Soviet consumers benefited from substantial increases in food supplies -- especially fruits, vegetables, and dairy products. With the help of the grain imports, the leadership managed to maintain meat consumption at about the 1972 level. Production of soft goods and certain consumer durables -- notably furniture and television sets -- grew faster than in 1972.

The economic momentum started last year has carried over into 1974. In the first quarter, industrial output increased by 7 percent over the same period in 1973, the largest first-quarter gain since 1970. The good results can be attributed largely to the substantial addition of new productive capacity toward the end of 1973 and to the accelerated flow of agricultural raw material from last year's record harvest.

If average weather prevails from now on -- and this is always a big question -- grain output this year will amount to about 185-192 million gross tons, well below last year's record 222.5 million tons.

- We estimate domestic requirements and export commitments at 196-206 million tons. Thus the shortfall could be as low as 4 million tons or as high as 21 million.
- Sufficient reserves are probably available to cover this; 15-25 million tons were added to stocks following the record 1973 harvest.

Beginning in July, when the harvest is well underway, the leadership will continually be assessing Soviet grain prospects. Despite its good reserve position, the USSR may nevertheless want to import grain in the coming fiscal year.

- The share of breadgrains in the 1974 harvest is smaller than usual.
- A large share of existing wheat stocks may be below milling standards.
- Much will depend on the size of foreign harvests. If they are large enough to drive down world prices, the Soviets might buy to avoid or minimize stock drawdowns.

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THE CURRENT SOVIET VIEW OF EUROPE

A year ago, Western Europe ranked high in the positive column of Moscow's overall detente balance sheet. The Soviet press regularly listed Brezhnev's summit meetings with Pompidou and Brandt alongside discussions with President Nixon as important detente milestones.

Now, Moscow's West European policy is in a holding pattern as it assesses the new leaders in France, West Germany and Britain and waits to see how these leaders deal with Europe's economic problems including whether they will be able to get the European Communities moving once more. CSCE remains uncompleted, and MBFR negotiations are not much beyond the squaring-off stage.

The Soviets have praised the "realism" Giscard and Schmidt have shown in endorsing their predecessors' policies of improving relations with the USSR, but they are clearly concerned that they will not have the same relationships with these men as they had with Pompidou and Brandt. The Soviets are worried about the firmly stated intention of each of the three governments to improve relations with the United States and about signs that Giscard and Schmidt will strengthen the Paris-Bonn relationship.

West Germany

While the Soviet-West German relationship was floundering even before Brandt's resignation, that event cost Brezhnev a key working relationship and the Soviets their foremost advocate of Ostpolitik. The loss was compounded by circumstances reminiscent of the very cold war tactics that had long embittered "the German problem."

The new leaders in Bonn are suspected of wanting to toughen West German policies toward the East.

- Prime Minister Schmidt, for example, opposes granting easy credit to the Soviets at this time.
- Foreign Minister Genscher, long identified with the Free Democrats' right wing, might now use his position as head of the party to forestall the coalition from making new initiatives to Moscow.

Berlin remains a neuralgic point in the relationship. At CSCE, the Soviets have resisted Bonn's efforts to preserve the possibility of German reunification through allowance for peaceful changes of frontiers. A change in West German leadership and recent stirrings toward West European defense cooperation will have heightened traditional Soviet fear of West German militarism. Indicative of their concern, in Vienna the Soviets continue to insist that the Bundeswehr be a prime target for force reduction.

France

Moscow fears that Giscard might swing France back toward the US and away from its "independent" European policy.

- Reinforcing the Soviets' suspicions about Giscard's attitudes is their strong dislike of such Giscard supporters as Justice Minister Lecanuet and Interior Minister Poniatowski.
- The strong showing of the left in the election evidently has caused Moscow to believe that it can be marshalled to oppose deviations from Pompidou's line.

The Soviets will have to act with some circumspection. Relations with France were somewhat shaky in the last months of the Pompidou administration. The French were miffed by the Soviets' failure to consult on Middle Eastern issues, and the Soviets were unhappy that Paris was still exploring ways to promote West European defense cooperation. Giscard's Atlanticist tendencies and his close ties with Schmidt will give Moscow additional cause for concern, although for the next few months it will not do more than see which way the wind is blowing.

Britain

Moscow is uncertain how far to commit itself to better relations with the Wilson government. The Soviets removed the British from their "black list" last year, and have raised the possibility of a Wilson visit to Moscow. The two countries finally concluded an economic and technology agreement last month, but Moscow is probably not expecting any early breakthroughs in view of Wilson's parliamentary situation, and its previous problems in dealing with the prime minister.

CSCE and MBFR

Soviet caution in the face of changing West European governments is also having an impact at the European security conference and force reduction talks.

- At CSCE, the Soviets are resisting attempts to reach meaningful compromises covering exchanges of persons and ideas and measures establishing confidence in the military area.

Instead they insist that, with agreement reached on the inviolability of frontiers -- the major Soviet substantive objective -- the second stage should be wrapped up as quickly as possible. Any unresolved problems, they argue, could be resolved in a permanent body set up by the conference. This course is meeting increasingly firm opposition from the West Europeans. The Soviets may, as many West European leaders suspect, solicit President Nixon's support -- and perhaps offer a few concessions in return -- for moving on to a concluding meeting at summit level.

- In the force reduction talks, the Soviets still want across-the-board reductions by all parties in the first phase. Of late the Soviets have stressed the need for all parties to make at least symbolic reductions in the first round of cuts, with more meaningful reductions to be discussed subsequently.

The Soviets have not lost interest in MBFR, (and Brezhnev made reference to it in the arms limitation remarks of his 14 June election speech).

Eastern Europe

In Eastern Europe, Moscow's allies continue to push for improvements in East-West relations while, at Soviet behest, they quietly tighten up ideological discipline.

As part of the effort to ensure that their Eastern European clients do not drift towards more autonomy, the Soviets are also driving for greater cooperation and integration within CEMA and the Warsaw Pact. Romania, as usual, is taking the lead -- and the risks -- in opposing these Soviet moves, but Bucharest is far from alone in harboring doubts about Moscow's schemes.

THE SOVIET LEADERSHIP

CURRENT POLITICAL SITUATION

Brezhnev has maintained his strong position in the past year, building on foreign policy initiatives to add to his personal authority at home.

- All his Politburo colleagues now acknowledge his preeminent position, although not all view his leadership or policies with equal enthusiasm.
- Brezhnev, for his part, continues to show an awareness of the danger of getting too far out ahead of the collective and an ability to trim when necessary.
- There has been no evidence of a serious challenge to his position or his policies.

Brezhnev's authority seemed to reach a new peak in November at the anniversary celebration, when he received unusual personal praise.

- He was aided by an upsurge in the economy, largely resulting from the record grain harvest. The harvest probably saved the career of Agricultural Minister Polyansky, who had been made the scapegoat for the previous year's disaster, but all the public credit went to Brezhnev.
- In late December Brezhnev's role as an innovative domestic leader began receiving emphasis. His speech at a party plenum, as summarized in *Pravda* is being held up as a guide for all in working to fulfill the 1974 plan. His call at the plenum to improve the structure of economic management, however, seems to have bogged down in controversy, thus possibly storing up serious problems for the future.

There have, however, been some puzzling developments recently.

- For the first time since this leadership group took over from Khrushchev, no leadership address was delivered on May Day. In the past Brezhnev has usually given such an address, although Podgorny presented it in 1972. This year, greetings were read by an anonymous announcer.
- For the first time in many years, *Pravda* failed to carry an article by Minister of Defense Grechko on the Soviet anniversary celebrating the end of World War II.

The just concluded Supreme Soviet election campaign -- in essence a carefully controlled register of political rank -- and its round of leadership speeches provided a helpful, although obviously incomplete, gauge of the current political situation.

- Brezhnev's preeminence continued to be heavily underscored. He received, as in the last election three years ago, far more honorary nominations than any other member of the Politburo. He and he alone was singled out for personal praise at all the local election meetings.
- The speeches of the other members of the politburo and party secretariat revealed broad support for the policy of detente and political backing for Brezhnev.

The speeches suggest some differences, however, in individual assessments of the virtues of detente and variations in the treatment of Brezhnev's role. The significance of these anomalies is not clear, but they do point to continuing politicking within the leadership and the need on Brezhnev's part to pay close attention to these signals.

- It was, for instance, no surprise that Brezhnev's political deputy Kirilenko was one of the warmest in his praise of Brezhnev and the prospects for detente, and that party theoretician Suslov was cool on both these counts.

- More puzzling is the apparent reserve of Gromyko on detente and of Grechko on Brezhnev's personal contribution. In the past, these men have spoken more warmly on these points.
- There is a hint of some disagreement within the leadership over defense spending. Podgorny, for instance, said flatly that because militarists in the West openly press for an increase in military expenditures, "we must take appropriate measures to strengthen our country's defense capabilities." Grechko and Gromyko took much the same line, although they did not put the matter as forcefully as Podgorny. Grechko, for example, spoke of the "indivisibility" of strengthening peace and the country's defense.
- Premier Kosygin, however, seemed to take issue with this. He noted that there are some in the West who "believe that increased military expenditures can be accommodated amidst the policy of detente" -- a remark that applies equally well to Soviet hawks. Kosygin added that those who adopt such a position must "accept the fact that it will increase the danger of war and result in unending wastage of mankind's strength and resources." "The USSR", he stated, "resolutely rejects such an approach."

One of the most interesting aspects of the speeches was the manner in which the fairly full versions in the local press were cut back for publication in the mass-circulation central press.

- With remarkable consistency this editing favored Brezhnev and detente. Remarks that might be construed as showing a suspicion of detente ended up on the cutting floor. For instance, critical remarks about the US were cut out of speeches by Gromyko, Shelepin, and Mazurov.
- The impression was thus left that the leaders' speeches were more uniformly up-beat than they actually were. This editing attests to Brezhnev's firm control over the propaganda media, but it nonetheless reveals a definite sensitivity to any errant views and underscores their political significance.

CURRENT MEMBERS OF THE SOVIET LEADERSHIP IN ADDITION TO
BREZHNEV, PODGORNYY, KOSYGIN, AND GROMYKO

Yury Andropov - full member of the Politburo and chief of the KGB, formerly responsible for relations with other socialist countries, considerable experience in foreign affairs with that focus. Age - 60.

Andrey Grechko - full member of the Politburo, Minister of Defense and Marshal of the Soviet Union. Professional soldier who achieved Politburo status last year in large part due to his loyal support of Brezhnev and his policies. Age - 70.

Viktor Grishin - full member of the Politburo and head of the Moscow city party organization. An experienced party official now occupying a position that has in the past proved an excellent launch pad for a top slot in the leadership. Grishin has had at least one serious heart attack, however, which casts a shadow on his future prospects. Age - 59.

Andrey Kirilenko - full member of the Politburo and a senior member of the party Secretariat, where he is responsible for overall supervision of heavy industry, and alternates with Suslov in deputizing for Brezhnev. A long-time Brezhnev associate who started his career in the same area of the Ukraine as the General Secretary. Holds no government position. Age - 67.

Fedor Kulakov - full member of the Politburo and party secretary for agriculture, a sector in which he is clearly the top ranking authority. Age - 56.

Dinmukhamed Kunayev - full member of the Politburo and party boss of Kazakhstan, clearly a political protege of Brezhnev, lives and works in Alma-Ata close to the Chinese border. Age - 62.

Kirill Mazurov - full member of the Politburo and First Deputy Chairman of the Council of Ministers, responsible for industry, transportation, and culture. Fought as a partisan behind German lines in World War II. Currently Kosygin's heir apparent on the government side and a possible successor to Brezhnev on the party side at some time in the future. Age - 60.

Arvid Pelshe - full member of the Politburo and Chairman of the Party Control Committee, the appeal board of the CPSU. Formerly party boss of Latvia, his presence on the Politburo provides token representation for the Baltic states. Age - 75.

Dmitry Polyansky - full member of the Politburo and Minister of Agriculture. Formerly Mazurov's opposite number as First Deputy Chairman of the Council of Ministers responsible for agriculture. His career struck a bad snag in February 1973 when he was demoted without explanation but presumably as scapegoat for the poor harvest of the preceding year. Could make a comeback in the future. Age - 56.

Vladimir Scherbitsky - full member of the Politburo and party boss of the Ukraine. Lives and works in Kiev. Achieved his current position through loyalty to Brezhnev, whom he followed up the career ladder in the Ukraine. Could well move to the center in the future. Age - 56.

Aleksandr Shelepin - full member of the Politburo and head of the trade unions organization. After a brilliant career under Khrushchev and following the latter's ouster -- in which he participated -- lost ground and by 1967 had slid downward to the politically powerless job of trade unions chief. Reputation for driving ambition coupled with great ability, and retains support in many elements of the bureaucracy. Cannot be counted out for the future. Age - 55

Mikhail Suslov - full member of the Politburo and a senior member of the party Secretariat, where he watches over the international communist movement. Unequalled stature as theoretician. Alternates with Kirilenko in deputizing for Brezhnev. Age - 71.

Petr Demichev - candidate member of the Politburo and party secretary for intellectual affairs. Former party boss of Moscow, considered a comer under Khrushchev, his career has peaked out since the latter's ouster. Will probably be a factor to consider in the next generation of leaders, however. Age - 56.

Petr Masherov - candidate member of the Politburo and party boss of Belorussia. Lives and works in Minsk, the capital of that republic. Like Mazurov, whom he has followed up the career ladder, fought with the partisans behind German lines in World War II. Could well move to the center in the future. Age - 56.

Sharaf Rashidov - candidate member of the Politburo and party boss of Uzbekistan, lives and works in its capital Tashkent. His candidate membership on the Politburo is intended to provide representation for Central Asia. As a token representative of that area, is not expected to move up in the hierarchy. Age - 56.

Grigory Romanov - candidate member of the Politburo and party boss of the Leningrad area, traditionally the power center rival to the city of Moscow. Promoted to candidate Politburo member a year ago in one aspect of an effort by Brezhnev to broaden his own power base. Modern minded, and a comer to be watched in the future. Age - 51.

Mikhail Solomentsev - candidate member of the Politburo and Chairman of the Russian Republic Council of Ministers. Experienced in both party and government work, he has impressed American visitors as extremely able and determined. Age - 60.

Dmitry Ustinov - candidate member of the Politburo and party secretary responsible for supervision of defense industry and space. Worked closely with Kosygin for many years in the government apparatus, has unequalled experience in defense industry production. A key behind-the-scenes figure in SALT matters. Age - 65.

Vladimir Dolgikh - party secretary for heavy industry, working under Kirilenko's general direction. Formerly ran a metallurgical combine in Norilsk, where he exhibited an unusually flexible and imaginative approach for a Soviet industrial manager. A representative of the next generation of leaders, now men in their 40s. Age - 49.

Ivan Kapitonov - party secretary for top personnel matters, working under Brezhnev. An experienced party official, he could be due for promotion soon, at least to candidate member of the Politburo. Age - 59.

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Konstantin Katushev - party secretary for CPSU relations with other ruling communist parties, working closely under the supervision of Brezhnev. Like Dolgikh, he is a representative of the next generation of leaders, began his career in the automobile plant in Gorky, and like Dolgikh made a reputation in industrial management. Age - 46.

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WESTERN INVOLVEMENT IN SOVIET INDUSTRY: THE BIG PROJECTS

The most striking aspect of the USSR's drive to upgrade its industrial technology is the emphasis placed on large projects that rely on Western help. During the past year a few of these major projects have been launched with Western participation, some have faded from view, and a great many more still are hanging fire

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I. Projects Underway

The major deals concluded with Western firms range over a number of basic industrial sectors:

- Automotive Technology-- For the Kama truck plant, the largest complex of its kind in the world, the USSR has contracted for almost \$1 billion of Western equipment. The United States alone has supplied about \$360 million worth, including the most advanced, fully automated foundry in the world. The Kama complex probably will generate another \$150 million worth of contracts before it is finished.
- Chemical Technology -- A USSR-Occidental agreement signed in 1973 covers equipment and technology for ammonia and urea plants and costs for pipeline and port facilities, worth at least \$400 million. Under the proposal, Western aid is to be repaid with deliveries of ammonia, urea, and potash. Financing was assured in May 1974 when Eximbank approved a loan of \$180 million, 45 percent of the total contract.

The USSR has also reached agreements with Montedison and ENI of Italy. Montedison will supply seven large chemical plants worth at least \$500 million; ENI will furnish six chemical plants at a cost of at least \$700 million. Deliveries will be financed under normal Italian government-backed lines of credit at 6 percent to 6.5 percent interest, with repayment tied to Soviet deliveries of chemical products.

- Coal Technology -- Japan is extending a \$450 million credit to finance the purchase of Japanese technology, equipment, and other goods to develop coking coal deposits in the Yakutsk ASSR. The credit will carry a 6.375 percent interest charge, and repayment will be tied to Japanese purchases of Soviet coking coal over a 20-year period.
- Metallurgical Technology -- West Germany has agreed to supply \$1 billion in equipment for the first phase of building a steel plant near Kursk. This stage includes a pelletizing plant, a direct reduction facility, an electrical steel plant, and rolling mills. After negotiating more than a year over credit terms, the USSR suddenly agreed to pay cash. Negotiations for the next stage of the complex will begin in 1976.

II. Projects Under Consideration

A number of other large projects are still being negotiated with Western nations. Some of these projects are close to conclusion; others require further negotiation, are only in the exploratory stage, or now seem unlikely to win Western participation.

- The US-Soviet North Star LNG project would require the largest investment -- \$6.5 billion. Of this total, \$3.7 billion would pay for Soviet-based installations and the balance for 20 US-owned LNG tankers and for terminals in the US. The project is in abeyance because of disagreements over financing and gas prices, recent Soviet demands for additional investment in the USSR, the USSR's desire to own part of the tankers, and the uncertainty of Eximbank financing.
- The \$3 billion Yakutsk LNG project calls for US and Japanese participation. US Eximbank financing seems the principal stumbling block, although the USSR has also raised new demands as it did on the North Star Project. Tokyo has approved \$100 million for exploration.

- The Sakhalin Offshore Oil project now seems destined to be mainly a Soviet-Japanese project. Gulf Oil lost interest in direct participation when the USSR rejected the production-sharing agreement that Gulf wanted. Gulf, however, is willing to supply the US equipment and know-how that will be necessary for the difficult offshore operation.
- The Tyumen Oil project, discussed by the USSR and Japan for years, appears to be dead. After Japan encouraged US participation several US firms became interested in a 20 percent share of the \$1 billion cost of Western equipment in return for delivery of oil on a 20-year contract. Then the USSR announced that the amount of oil to be delivered would be less than initially proposed, discouraging both Western partners. More recently the USSR has said that a second trans-Siberian rail line rather than a pipeline would carry Tyumen oil. Indeed, the Soviet Minister of the Oil Industry has declared that foreign participation in development of Tyumen reserves is not anticipated. The Tyumen project therefore no longer seems to be a likely candidate for Western investment.
- Kaiser Industries has signed a protocol with the Soviet Ministry of Nonferrous Metallurgy, preparing the way for negotiations of the construction of an alumina refinery, an aluminum reduction plant, and a large rolling mill. Kaiser officials estimate that \$1.4 billion in Western equipment will be required for the three plants. Although financing and the price and volume of Soviet alumina to be sold in repayment are yet to be negotiated, both sides appear optimistic that final agreement will be reached. The Soviets are also negotiating with other Western firms for another billion-dollar aluminum complex.

III. Western Competition

American firms are in the running for many of the large projects because the USSR recognizes the superiority of US technology in some areas and because detente has made some Eximbank financing and low-interest, long-term credits available. In areas such as oil and gas production, automotive manufacturing

equipment, and computers, semi-conductors, and other electronics, the US clearly possesses the best technology in the world or is the sole supplier. In most product areas, however, the USSR can secure technology as good as or even better than US technology from other developed Western nations.

When technical considerations do not dictate the choice of a supplier, price and credit terms or political factors will prevail. The USSR has been able to obtain favorable credit terms in most of the projects negotiated so far. The exception is the Kursk contract. When negotiations stalled with West Germany, the USSR suddenly decided to pay cash for the first stage of the project, probably to cement Soviet-West German detente bonds. 25X1

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Approved For Release 2005/08/22 : CIA-RDP85T00875R001900020143-8

DOMESTIC POLITICAL QUESTIONS IN THE USSR

Economics and ideology are at the center of the domestic issues occupying the Soviet leaders. In the present era, these traditional concerns are given added urgency by the development of detente with the West.

Economics

Soviet authorities are in the early stages of drafting the next 5-year economic plan (1976-80). The process is always difficult and divisive, with various interests competing to capture a large share of the pie. Ultimately, the Politburo members must decide on the basic proportions of the plan.

Brezhnev has already announced two early decisions on major projects under the plan. This spring he launched a program to develop agriculture in European Russia with the stated price tag of 25 billion rubles for 1976-1980. Brezhnev has also publicized a decision to build a second railroad through Eastern Siberia and the Far East as the first step in creating a new industrial region in the east.

These ambitious projects will extend beyond the next five-year period. Indeed, many economic and academic organizations are now engaged in working out a 15-year plan for 1976-90.

The fundamental economic decisions that must be taken are complicated by foreign policy considerations. Should judgments on the course of detente influence the shape of these plans? How should the plans take into account the possibilities of foreign trade and participation in Soviet development ventures? How much of Soviet natural resources should be sent abroad to purchase such participation? How much reliance should be placed on Western technology?

Another important question is how economic performance under future plans can be improved by reforms and/or reorganization -- a perennial concern for Soviet leaders anxious over lagging growth. The economic bureaucracy is in the midst of a drawn-out and painful process of amalgamating enterprises and farms into larger and more complex associations. Reports have circulated that a reorganization at the level of the Council of Ministers is also being considered.

Last December Brezhnev admitted that past steps taken by the Politburo to improve economic management have been insufficient, and he called for a new unified system of measures. He warned that postponing a solution could create difficulties in drafting future economic plans. Brezhnev's vagueness about solutions, however, indicated uncertainty among Soviet leaders about how to proceed. Indeed, Podgorny immediately cautioned against the idea of any radical reorganization, and even the prospect of such schemes has traditionally bred political infighting.

Here foreign relations also have some effect. Studies are reportedly under way on restructuring the organization of foreign trade to handle growing commerce with the West. More indirectly, Soviet specialists and leaders, including First Deputy Premier Mazurov, have indicated that Western corporate organizations are being looked at in considering new structures in the Soviet Union.

Ideology

The impact of detente on policy regarding ideology and social control is more immediate. The leadership is trying to maintain discipline on these matters while showing some flexibility in the face of outside pressures and changing circumstances. The fact that the party's propaganda department has been headless for four years suggests some pulling and tugging in the political hierarchy over this sensitive area.

Brezhnev, generally a traditionalist on ideology and control, has given some attention to pressures for change. He let it be known that he approved a stay abroad by cellist Rostropovich, who had defended and aided Solzhenitsyn. He also approved the erection of a monument on Khrushchev's grave designed by a controversial sculptor who had just publicly criticized Soviet travel restrictions. These and other compromises with non-conformist intellectuals may embolden others to speak out and press for privileges such as travel.

In a speech last August, Brezhnev tried to square the demands presented by detente with the concerns of the party propagandists. He declared optimistically that increased contacts with the West offered opportunities for winning adherents abroad and called for a more sophisticated propaganda effort. He spoke just before jamming of some foreign broadcast stations

was lifted. Mazurov and trade unions chief Shelepin appear to support modernizing the propaganda effort. This year occasional press articles have given unusual reportage to the ideas and activities of some dissidents, apparently in an attempt to deal more forthrightly with spreading knowledge of such affairs.

Most recently, in his mid-June speech preceding the elections to the Supreme Soviet, Brezhnev harked back to this theme. He referred to the "especially urgent" need for increased openness in the work of party and government bodies. His speech will lend encouragement to "modernist" intellectuals, who have long maintained that freer discussion of major issues is essential if the USSR is to find solutions to its problems at home and abroad.

The suggestion runs counter to deep-rooted Soviet custom and will be alarming to many, especially those directly responsible for maintaining discipline. Repression continues, and leading nonconformist intellectuals still agitate to leave the country. The problem of balancing discipline and intellectual vitality, is endemic and will become more serious as detente continues and the attendant Western contacts and involvements multiply. Moscow will have to cope indefinitely to find workable balances in a constantly changing situation.

THE USSR AND THE MIDDLE EAST

Soviet Goals and Prospects at Geneva

Moscow hopes the conference will legitimize a Soviet presence in the post-settlement Middle East. The Soviets will be seeking a role as

- a formally recognized "guarantor" of the settlement
- a key source of continuing military and economic assistance for Arab development
- an ally to which the Arabs can turn should the negotiating process go sour.

To further these aims, the Soviets will try to keep in step with the most important Arab states -- Syria and Egypt -- and will support them in an effort to obtain the best possible agreement. This will require Moscow to overcome or at least reduce its current difficulties with Cairo, find a Palestinian consensus to champion, and support a settlement satisfactory to the Arabs.

It is unlikely that Moscow will resort to obstructionism, even in the face of a further loss of influence. The Soviets recognize that they cannot prevent a settlement that the Arabs want, or even to be seen trying to do so. They will urge the Arabs to drive a hard bargain, and will use their influence to diminish the US role in the region insofar as possible. But the Soviets have been playing with weak cards since the October war and they know it. Their objective is do nothing that will seriously mortgage their future in the Middle East while doing what they can to place themselves in a position to take advantage of a new deal of the deck.

Egypt

Moscow clearly has no interest in driving Egypt further into the arms of the US. It wants to protect its use of the port facilities at Alexandria and needs a viable relationship with Egypt to attain its goals in Geneva.

There have been signs of a recent thaw in relations; at least Sadat has cooled his anti-Soviet rhetoric, but we still have no evidence that the Soviets have resumed arms deliveries to Egypt. Apparently, the two countries are now wrangling over how soon to reconvene the Geneva talks. Cairo is in no hurry.

Syria

Moscow has been unstinting in its deliveries of military aid. The Syrians have probably received SCUD missiles and MIG-23 aircraft. (The Egyptians have been unsuccessful in their attempts to get the MIG-23.)

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Asad was more solicitous of Soviet sensibilities than Sadat during the negotiations and probably will remain so at Geneva. This appears to be the minimal cooperation the Soviets are willing to accept. Moscow can influence but not dictate Syria's negotiating position.

Palestinians

The Soviets have tried to strengthen their relations with the fedayeen, but they have not developed a clear-cut policy on the Palestinian question beyond supporting Palestinian participation at Geneva. The Soviets have been exasperated by the difficulties in dealing with the feuding fedayeen factions.

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Soviet views regard Asad as the most likely candidate to unify and lead the Palestinian cause.

The Soviets hope that their support for the Palestinians will result in a long-term role as a "guarantor" of the just rights of the Palestinian people. At the same time, Moscow does not want to isolate itself from the mainstream in the Middle East by seeming to support the more radical Palestinians. It will, therefore, resist pressures from the more radical fedayeen to obstruct the negotiating process.

Iraq

The Soviets have been strengthening their position in Iraq by providing economic and military assistance as well as giving Baghdad full support in its efforts to put down the Kurdish rebellion.

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Baghdad, however, takes a radical position on Middle East negotiations.

Moscow views Iraq as a possible gateway to further influence in the Persian Gulf. The Soviets are allowed to make port calls at Iraq's port of Umm Qasr, which gives them added flexibility in their operations in the Persian Gulf and Indian Ocean.

Algeria

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Moscow has tried to revive its cool relations with Algiers, but has probably had little success.

Defense Minister Grechko's recent visit apparently did little to stimulate better relations.

The Soviets are Algeria's principal arms supplier, but Algiers has failed to make any significant drawings on credits for more military hardware that was extended over three years ago. It is doubtful that Moscow will be able to count on Algeria.

Libya

Libyan-Soviet relations have been traditionally antagonistic, and the recent Jallud visit to Moscow was an initial attempt to bridge their differences. Both countries wanted to put pressure on Sadat by creating the impression of an anti-Sadat coalition.

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At present there seems little prospect for a significant improvement in relations. The Libyans do not want large groups of Soviets in Libya and refuse to allow Soviet naval ships to call at their ports. Tripoli opposes negotiations with Israel.

Israel

The Soviets are keeping alive the prospect of reestablishing relations with Israel. During the President's trip to the Middle East, Moscow began circulating rumors that a resumption of relations with Israel was imminent. The purpose was probably to put the Arabs on notice that Moscow could also play the other side of the street. It probably also was intended as a trial balloon; the Soviets may want to get a reading on how much flak they are going to take if, and when, they make a move toward recognizing Israel.

A SOVIET SUMMIT PROPOSAL ON MUTUAL RESTRAINT?

Brezhnev's 14 June election speech contains the following passage:

We hold that the US and the USSR, by mutual agreement, should show maximum restraint in the further development of their armaments and should reach an agreement permitting the forestalling of the creation of ever newer systems of strategic weapons.

This statement, occurring in his discussion of the forthcoming summit, raises the possibility that the USSR will initiate a discussion of "mutual restraint" at the summit and propose language in the final communique reflecting agreements in principle to this concept.

The Soviets proposed mutual restraint at SALT II in terms of a side agreement covering weapon systems not limited by current agreements and interim in nature, pending a permanent agreement. In this context, they specified Trident, B-1, SRAM, Minuteman III, and Poseidon as candidates for US restraint. More generally, they cited general categories of weapon systems, including inter alia new types of bombers, long-range ASMs, intercontinental cruise missiles, and air-launched strategic missiles. Acknowledging that Soviet restraint would also be required, they invited specific suggestions; the US did not respond.

As resurrected now by Brezhnev, this has all the earmarks of a propagandistic proposal. The Soviets know

- that they have, and perforce always will have, much more information about US programs in the R and D stage than does the US about Soviet programs;
- that the phrase "ever newer systems" bears much more directly on the threats which the USSR perceives, i.e., US programs now in their early stages, than on the threats which urgently concern the US, i.e., Soviet ICBM programs now nearing the deployment stage;

- that monitoring and verification of something as vague as "restraint" on "ever newer systems" could pose insoluble problems.

It is nevertheless possible, although unlikely, that Brezhnev has something more specific, and more acceptable, in mind. This possibility rests in turn on another possibility: that he is quite anxious to sustain the momentum of detente, believes that a substantial arms control agreement is needed now to uphold it, sees little chance of achieving one at the summit if the SALT I approach is followed, and feels it necessary to try a new approach.

Some support for these propositions could perhaps be read into

- Brezhnev's evident, though not unqualified, concern to reach agreements that would enable the 1974 summit to equal its predecessors;
- his statement that Soviet-American relations should become "really stable, irrespective of fortuitous factors" -- a possible reflection of a need for haste in the face of American political uncertainties;
- Kosygin's criticism, in his election speech, of those "in the West" who believe that increased military spending can be accommodated with a policy of detente.

As evidence, this is not impressive. Brezhnev's intentions can readily be tested, when and if he raises "mutual restraint", by asking whether such matters as Soviet ICBMs now in the testing stage, or near-term MIRVing, fall within this concept.

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STAT

June 28, 1974

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Enclosed is an updated and revised version of our estimates of personal money income in the USSR that you requested in your letter of 6 June. You will note that the revision contains considerably more detail than our original estimates that appeared in New Directions in the Soviet Economy. The revisions have not, however, resulted in any substantial change in our estimate of the magnitude of Soviet personal income.

I hope this data meets your needs. If I can be of further assistance, please let me know.

STAT

Sincerely yours,

Enclosure:
As stated

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Table 1

USSR: Personal Money Income, 1950-73

Billion rubles

1950	1955	1960	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
45.91	63.37	84.95	123.43	134.19	145.01	160.74	170.56	183.89	194.86	206.67	218.35	
31.14	43.30	60.00	89.07	95.85	103.37	115.09	123.34	132.03	140.20	148.81	157.95	(166.64)
0.88	1.17	--	--	--	--	--	--	--	--	--	--	--
1.18	3.06	5.10	9.10	10.90	12.60	13.16	12.97	14.04	14.32	14.60	15.44	(16.39)
4.54	4.46	5.95	7.15	7.85	8.13	9.30	8.71	10.02	10.14	10.39	10.39	
--	0.01	0.02	0.02	0.02	0.02	0.02	0.02	0.03	0.03	0.03	0.03	
3.59	4.52	2.57	2.46	2.47	2.51	2.51	2.57	2.58	2.63	2.63	2.63	(2.63)
4.58	6.85	11.31	15.63	17.10	18.38	20.66	22.95	25.19	27.54	30.21	31.91	
3.48	4.63	9.53	13.85	15.18	16.23	18.27	19.92	21.96	23.89	25.94	27.40	(28.40)
2.40	3.25	7.10	10.60	11.80	12.60	14.00	15.00	16.20	18.00	19.80	NA	
1.08	1.37	2.43	3.25	3.38	3.63	4.27	4.92	5.76	5.89	6.14	NA	
0.54	0.64	1.33	1.96	2.02	2.28	2.81	3.34	3.73	3.69	3.86	NA	
0.18	0.24	0.51	0.62	0.65	0.66	0.72	0.79	0.87	0.94	0.99	NA	
0.37	0.49	0.50	0.46	0.46	0.45	0.45	0.44	0.44	0.40	0.40	NA	
--	--	0.09	0.21	0.25	0.24	0.29	0.36	0.72	0.85	0.90	NA	
0.46	0.74	0.63	0.87	0.96	1.04	1.10	1.30	1.30	1.40	1.50	1.60	
0.51	1.43	0.70	0.10	0.10	0.20	0.20	0.20	0.10	0.10	0.08	0.10	(1.00)
0.02	0.11	0.22	0.38	0.46	0.54	0.65	0.77	0.93	1.06	1.21	1.37	
--	--	0.01	0.09	0.13	0.13	0.13	0.14	0.15	0.13	0.26	0.38	
0.04	0.03	0.16	0.25	0.25	0.28	0.37	0.67	0.78	0.99	1.23	1.51	(2.20)
0.07	-0.09	0.06	0.09	0.02	-0.04	-0.06	-0.05	-0.03	-0.03	-0.01	NA	

Table 1

US\$ Personal Money Income, 1950-73

	1950	1955	1960	1965	1966	1967	1968	1969
1. TOTAL PERSONAL MONEY INCOME	45.91	63.37	84.95	123.43	134.19	145.01	160.74	170.1
2. Gross earnings of wage and salary workers	31.14	43.30	60.00	89.07	95.85	103.37	115.09	123.4
3. Gross earnings of cooperative artisans	0.88	1.17	--	--	--	--	--	--
4. Collective farm wage payments	1.18	3.06	5.10	9.10	10.90	12.60	13.16	12.9
5. Net household incomes from sale of farm products	4.54	4.46	5.95	7.15	7.85	8.13	9.30	8.7
6. Profits distributed to cooperative members	--	0.01	0.02	0.02	0.02	0.02	0.02	0.0
7. Military pay and allowances	3.59	4.52	2.57	2.46	2.47	2.51	2.51	2.5
8. Transfer payments	4.58	6.85	11.31	15.63	17.10	18.38	20.66	22.9
9. Pensions and welfare payments	3.48	4.63	9.53	13.85	15.18	16.23	18.27	19.9
10. Pensions	2.40	3.25	7.10	10.60	11.80	12.60	14.00	15.0
11. Welfare payments	1.08	1.37	2.43	3.25	3.38	3.63	4.27	4.9
12. Temporary disability benefits	0.54	0.64	1.33	1.96	2.02	2.28	2.81	3.3
13. Maternity benefits	0.18	0.24	0.51	0.62	0.65	0.66	0.72	0.7
14. Grants to large families and unwed mothers	0.37	0.49	0.50	0.46	0.46	0.45	0.45	0.4
15. Other grants	--	--	0.09	0.21	0.25	0.24	0.29	0.3
16. Stipends to students	0.46	0.74	0.63	0.87	0.96	1.04	1.10	1.3
17. Loan service	0.51	1.43	0.70	0.10	0.10	0.20	0.20	0.2
18. Interest on savings	0.02	0.11	0.22	0.38	0.46	0.54	0.65	0.7
19. Lottery winnings	--	--	0.01	0.09	0.13	0.13	0.13	0.1
20. Insurance payments	0.04	0.03	0.16	0.25	0.25	0.28	0.37	0.6
21. Net borrowing	0.07	-0.09	0.06	0.09	0.02	-0.04	-0.06	-0.0

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